

SECTION I – GENERAL COMPLIANCE
CHAPTER 6

CHART OF ACCOUNTS/EXPENDITURE CLASSIFICATION

Prescribed System of Double-Entry, GAAP Reporting and Bookkeeping Records

Effective July 1, 1993 the New Jersey school districts are required to maintain a double-entry, self balancing set of accounts and records in accordance with Generally Accepted Accounting Principles (GAAP). The New Jersey Administrative Code (*N.J.A.C.*) 6:20 Subchapter 2A became effective on that date, and has been amended effective July 1, 2001 by *N.J.A.C.* 6A:23, Subchapter 2.

N.J.A.C. 6A:23-2.(g) requires that the district board of education adopt a chart of accounts that is prepared in conformity with the guidelines established by the Department of Education. The minimum level of detail (minimum outline) for expenditure accounts to be maintained in the chart of accounts for compliance with Department of Education and federal reporting requirements is presented in Appendix A of The Uniform Minimum Chart of Accounts (Handbook 2R2) for New Jersey Public Schools as updated by revisions required with the enactment of CEIFA.

N.J.A.C. 6:23-2.11(a)2 states that when a board of education adopts an expanded chart of accounts, the board shall adopt a policy concerning the controls over appropriations for line item accounts which exceed the level of detail required under the minimum outline. If a district fails to adopt such a policy, the restrictions regarding overexpenditure of funds apply to line item accounts that exceed the minimum level of detail.

The Comprehensive Educational Improvement and Financing Act of 1996 (CEIFA) became effective on December 20, 1996, and was first applied to the 1997-98 fiscal year. On September 2, 1997, *N.J.A.C.* 6:19 was adopted pursuant to *N.J.S.A.* 18A:7F-34 to achieve the provisions of the Act.

The Department of Education publication entitled GAAP for New Jersey School Districts, A Technical Systems Manual must be utilized in the evaluation of a school district's maintenance of the double-entry system of accounting in accordance with *N.J.S.A.* 18A:4-14. The Department of Education does not prescribe a standard format for the ledgers and journals used to maintain the accounting records, but instead gives general descriptions of each in the manual. Local school district auditors must be adequately familiar with the publication to perform the annual audit.

New Jersey Administrative Code 6A:23-2.7 requires that district boards of education which contract for electronic data processing bookkeeping services shall annually have an audit prepared or obtain a copy of an audit of the internal controls of the service company. Such audit shall be as prescribed by Statement of Auditing Standards No. 70 (SAS 70), as amended by SAS 88, of the American Institute of Certified Public Accountants.

Expenditure Classifications and Reporting

Auditor's Note – Auditors should review The Abbott Addendum for items that specifically relate to Abbott districts.

Expenditures must be reported in the proper fund in the minimum outline format. As explained in Section I, Chapter 8, two sets of financial data are presented in the CAFR for the special revenue fund - budgetary basis and GAAP.

Expenditure Classifications and Reporting (cont'd)

Pre-GASB 34 Model

The *Combined Statement of Revenues, Expenditures and Changes in Fund Balances, All Governmental Fund Types* (A-2) reflects special revenue fund revenues and expenditures on a GAAP basis. The *Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual* (A-3) reflects special revenue fund revenues and expenditures on a budgetary basis. A reconciliation between the two amounts is a required footnote disclosure.

GASB 34 Model

The *Statement of Revenues, Expenditures, and Changes in Fund Balance* (B-2) reflects special revenue fund revenues and expenditures on the GAAP modified accrual basis. The *Special Revenue Budgetary Comparison Schedule* (C-2) reflects special revenue fund revenues and expenditures on a budgetary basis. The *Budget to GAAP Reconciliation Note* is part of the Required Supplementary Information in the CAFR.

GAAP expenditures are calculated as budgetary expenditures plus 6/30 prior year encumbrances less 6/30 current year encumbrances. The information presented in the schedules of federal expenditures and state financial assistance is on the budgetary basis.

Pre-GASB 34 Model

As with the monthly report of the board secretary, the combined and combining sections of the CAFR must be prepared in the minimum outline format. The budget column of the statements of revenues, expenditures, and changes in fund balance contained in the CAFR is the final approved budget as of June 30th and should reflect transfers made during the year. Since this presentation does not highlight budgetary transfers, significant transfers must be reported in the notes to the financial statements. An alternative acceptable format would be the presentation of columns for the original budget, budget transfers, and final budget. Districts with approved separate proposals must maintain a separate accounting of expenditures for each question.

GASB 34 Model

The original budget as well as the final approved budget as of June 30th must be reported in the budgetary comparison schedules. The variance is required by NJ DOE, as is the transfer column between the original and the final.

Expenditures must be checked and verified, properly authorized by the board and recorded in the minutes. Expenditure classifications must be in accordance with The Uniform Minimum Chart of Accounts (Handbook 2R2) for New Jersey Public Schools, as updated by revisions required with the enactment of CEIFA, and the terms and conditions of the grant award. Auditors should familiarize themselves with the document entitled Coding Appropriations Using the 2R2 Chart of Accounts as Modified by the Comprehensive Educational Improvement and Financing Act included in the 2001-02 Budget Guidelines and use it as a reference tool in the coding of expenditures. Also included in the 2001-02 Budget Guidelines is the section "*Detailed Appropriations Grid*" and it should also be used as a reference tool.

The restricted entitlement funds (Demonstrably Effective Program Aid, Early Childhood Program Aid, Distance Learning Network Aid, and Instructional Supplement Aid) created under CEIFA must be accounted for in the special revenue fund at the object level between the instruction, support services, and facilities and acquisition functions, following the uniform grant project budget statement coding structure. Districts receiving Demonstrably Effective Program Aid are required to track expenditures by strategy/program and location. The activity related to each restricted grant, from either local, state or federal sources must be accounted for in the special revenue fund in the minimum outline format. Summarized information related to all state and federal grants and entitlements must be reported in the schedules of expenditures of federal awards and state financial assistance.

The auditors' procedures should include tests of the appropriate classification of expenditures in accordance with the prescribed chart of accounts. Improper coding of expenditures is considered noncompliance with N.J.A.C. 6A:23-2.2(g) and noted instances must be reported in the Auditor's Management Report. Auditors are directed to test the proper coding of expenditures during their review of the districts' internal controls and the application of standard testing methods, as well as during compliance testing and the performance of single audit procedures. That is, each general fund or special revenue fund expenditure transaction tested for those procedures must also be tested for propriety of classification. Exceptions should not be reported for instances where the department has not given specific coding guidance in the aforementioned documents. The sample should be expanded if significant coding problems are noted.

Auditors are required to include a comment about expenditure coding in the Auditor's Management Report summarizing their sample selection process, conclusions reached and additional procedures performed, if any. Auditors are also required to include a summary of expenditure classification test results in the Audit Questionnaire indicating the dollar value of items tested, dollar value of exceptions noted and the error rate.

When a coding error is noted by the auditor, the expenditure must be reclassified for financial statement presentation, even if the reclassification will put the proper line item account into a deficit position and regardless of materiality of the error. The appropriation would not be reclassified with the expenditure unless there is a clear indication that the district misbudgeted the appropriation. In cases where it is clearly supported by district budget development workpapers that a budgeting error was made, the appropriation should be reclassified to the proper line item account. Accordingly, if the reclassification creates a line item deficit, the auditor's finding in the Auditor's Management Report must include an explanation that the deficit was not due to intentional overspending of the line item, but rather was generated due to a reclassification of expenditures to the proper line item account. In cases where there clearly was a miscoding in the development of the budget as well as the expenditure, the finding must include an explanation that the expenditure was miscoded and misbudgeted, and the appropriate entries were made to reclassify both to the proper line item account. Board action is not required. The rationale for and documentation of procedures performed and conclusions reached should be included in the auditor's workpapers and available for review by the department.

In addition, special revenue fund coding errors are not considered questioned costs if the expenditures are approved under the terms and conditions of the grant award. The miscodings must be reported in the Auditor's Management Report in the expenditure coding comment. The comment must clearly state that the expenditures were consistent with the approved award and the changes were the result of miscoding. District final grant close-out reports should reflect the corrected coding of expenditures, including reclassifications of the original budgeted figures, if it was determined that the approved budget was based on the miscoding and the reclassification was made by the auditor in the CAFR. Districts should submit with the grant closeout report a copy of the auditors' expenditure coding comment to support the propriety of the reclassification in the closeout report. The district does not need grantor approval for the reclassifications made by the auditor. However, if the auditor determines that any expenditure was not consistent with the approved grant award the cost must be included in the Auditor's Management Report, and if the finding meets the audit finding criteria as defined in Circular A-133 and/or Circular Letter 98-07, as applicable, it must be included in the Schedule of Findings and Questioned Costs in the Single Audit Section of the CAFR. Such miscodings will thus appear in two places in the Auditor's Management Report.

N.J.A.C. 6A:23-2A.11 Overexpenditure of Funds

The budget status certification requirements, which are explained in detail in Division of Finance Policy Bulletin 200-11, must be fully implemented or else appropriate comments and recommendations must be included in the annual audit report.

Coding Appropriations Using the 2R2 Chart of Accounts as Modified by the Comprehensive Educational Improvement and Financing Act

The Chart of Accounts (COA) provides descriptions of the account classifications (dimensions) comprising the coding of accounts in New Jersey school financial operations. Its format presents definitions of the component dimensions and the type of transactions that would be included in that classification. Appendix A "Expenditure Account Outline" of the COA lists the minimum level of detail that must be maintained in a district's chart of accounts for compliance with Department of Education (DOE) and federal reporting requirements, however, it does not reflect the changes necessitated by CEIFA. The lines of the annual school district budget statement reflect the changes to the minimum outline for general current expense (character class 11), capital outlay (character class 12), special schools (character class 13), and debt service (fund 40) necessitated by the partial implementation of CEIFA.

Auditor's Note – Auditors should review The Abbott Addendum for items that specifically relate to Abbott districts.

As in the past, the budget statement contains summarized information related to special projects/grants. The detail reflected in the minimum outline for the special revenue fund (fund 20) must be maintained in the accounting records of the district for these summarized special projects. The restricted entitlement funds created under the Comprehensive Educational Improvement and Financing Act must be budgeted at the object level, with further detail of intended use for the funds provided in the supporting documentation of the budget. If a district opts to expand beyond the minimum outline in its chart of accounts, there must be a clear trail from the internal accounting records to the information summarized in the format of the minimum outline reflected in the budget statement.